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ASX release

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Tassal well positioned to drive growth in earnings and returns in FY20 and beyond

Tassal Group Limited (ASX: TGR) is pleased to announce its results for the half year ended 31 December 2019 (1H20) that saw the Company deliver on its core salmon operational strategy, progress its prawn growth strategy, and strongly position itself for continued growth in earnings and returns in FY20 and beyond.

Key 1H20 highlights:

- Salmon:** the strategic focus for 1H20 was to increase operating EBITDA \$/kg through a period of investment in the growth of biomass and size. Reduction in sales in 1H20 was predominantly targeted at the lower value export market, with sales mix shift and cost efficiencies driving the increase in EBITDA \$/kg. Harvesting and selling less salmon in 1H20 supported greater biomass and size, and is expected to deliver increasing harvest and sales in 2H20 (vs 2H19) and FY21. Earnings and returns are expected to grow for FY20 and beyond
- Salmon:** live biomass (up 15.5%) including size (up 2.1%) for 1H20 vs 1H19. Growth was achieved given management's focus on sustainable farming and fish health practices... breeding, biosecurity, feed automation, feed diet formulation, stocking densities, optimising leases with fallowing, growth times and survival. Bigger salmon generate better margins
- Salmon:** continually optimising salmon biomass growth (cost efficiencies) and sales mix (higher margin markets and products) underpinned growing salmon EBITDA \$/kg of \$3.44kg (pre AASB 16 Leases impact), which compares favourably with 1H19 of \$2.98kg. Salmon EBITDA \$/kg was \$3.69kg (post AASB 16 Leases impact)
- Prawns:** on track for targeted circa 2,400 tonnes harvest and sales in 2H for FY20, with further growth expected in FY21 onwards through staged expansion of farming operations
- Overall:** well positioned to deliver earnings and returns growth in FY20 and beyond through capitalising on the strong growth in both salmon and prawn biomass via higher sales and cost efficiencies in 2H20 and FY21.

Tassal's delivery of its salmon growth strategy, combined with the Company's strategic investment in prawns, will help underpin expected long-term growth in earnings and returns in FY20 and beyond.

Financial Performance (A\$m)	1H20	1H19	Change
Revenue	274.49	326.00	(15.8%) ▼
Operating results			
Operating EBITDA	66.46	64.27	3.4% ▲
Salmon Operating EBITDA \$/Kg (Pre AASB 16)	3.44	2.98	15.5% ▲
Salmon Operating EBITDA \$/Kg (Post AASB 16)	3.69		
Prawn Operating EBITDA \$/Kg	6.01	6.12	(1.9%) ▼
Operating EBIT	48.06	49.83	(3.6%) ▼
Operating NPAT	30.64	31.72	(3.4%) ▼
Statutory results			
AASB 141 SGARA Impact ¹	16.76	3.32	405.7% ▲
Statutory EBITDA ¹	81.00	65.87	23.0% ▲
Statutory NPAT ¹	40.82	32.84	24.3% ▲
Operating cashflow	40.97	79.65	(48.6%) ▼
Interim dividend - cps ²	9.00	9.00	0.0% ●

Note

- Pre-tax SGARA adjustment benefit of \$16.8 million (1H19: \$3.3 million). Post-tax benefit of \$11.7 million (1H19: \$2.3 million).
- Total dividend is 25% franked (1H19: 25% franked)

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Commenting on the Company's 1H20 results, Tassal Managing Director & CEO Mark Ryan said:

"Tassal's growth strategy for FY20 is to increase operating EBITDA \$/kg returns for both salmon and prawns through optimising biomass growth to generate cost efficiencies, and also optimising sales mix with a focus on higher margin markets and products, while keeping export as the channel for surplus volume. The Company's results demonstrate that this strategy was well implemented in the first half, generating strong increases across operational, financial, environmental and social parameters.

"Selling and harvesting less salmon in the first half was a deliberate operational strategy to underpin strong harvest volumes and sales in the second half and next financial year. Salmon live biomass grew significantly over the past six months given our focus on sustainable farming and fish health practices including breeding, biosecurity, feed automation, feed diet formulation, stocking densities, optimising leases with fallowing, growth times and survival.

"Tassal's delivery of its salmon growth strategy, combined with the Company's successful investment in prawns, will help underpin expected long-term growth in earnings and returns. We have a well-balanced program in place centred on species, geographic and earnings diversification, and are well positioned to drive growth in earnings and returns in FY20 and beyond."

Increased salmon operating EBITDA \$/kg and prawn growth on track

Over 1H20, Tassal's focus was on keeping fish in the water (rather than harvesting for short term revenue) while continuing to focus on driving cost efficiencies and optimising sales mix through higher value markets and products. Reduced sales into lower value export markets (specific strategy) given its continued use as a channel for surplus volume, combined with further optimisation of sales mix in the domestic market underpinned a 15.4% increase in salmon EBITDA \$/kg to \$3.44kg (pre AASB 16 Leases impact), which compares favourably with 1H19 of \$2.98kg. Salmon EBITDA \$/kg was \$3.69kg (post AASB 16 Leases impact).

Tassal's strategy to substantially increase prawn production is being implemented, with material earnings expected to commence in 2H20. Prawn earnings for 2H20 are effectively represented by the SGARA value of \$15.4 million at 31 December 2019 as this stock is planned to be harvested and sold before 30 June 2020. Tassal is on track to harvest a targeted circa 2,400 tonnes in 2H20 for FY20, with further growth expected in FY21 onwards through staged expansion of farming operations.

With the implementation of AASB 16 Leases, there was a benefit to 1H20 EBITDA of \$4.4 million, with virtually no impact to EBIT, PBT and NPAT.

Operating cashflows supported salmon and prawn biomass generation and investment in infrastructure to underpin long-term growth

Operating cashflow was in line with expectations at \$41.0 million, reflecting decisions in line with the Company's operational strategy to harvest and sell less salmon in 1H20 to underpin growth in growth in salmon and prawn biomass, which is expected to deliver growth in earnings over FY20 and FY21. Salmon was left in the water to grow (and therefore fed more) and the Company tactically lowered overall sales through targeting a reduction in sales for the lower value export sales and sales for less profitable domestic product lines. In addition, Tassal fully stocked 270 hectares of prawn ponds and feed, optimising the growth of the prawn stock (to be harvested in 2H20).

The Board remains very focused on ensuring responsible working capital and capital spending to underpin sustainable growth in long-term returns and expects to see the benefit from this flowing from 2H20 onwards.

The Directors of Tassal have declared a FY20 interim dividend of 9.0 cps franked at 25% (1H19: 9.0 cps, 25% franked). The record and payment dates for this dividend are 16 and 31 March 2020, respectively. The Company's Dividend Reinvestment Plan (DRP) will apply to the 1H20 interim dividend, and shareholders electing to participate in the non-underwritten DRP will receive a 2% discount.

Tassal is committed to providing Australians with responsibly produced and sourced seafood

Tassal's ongoing commitment is to continue to serve better: better quality salmon, prawns & seafood; better environmental outcomes; better community opportunities; better long-term sustainable returns to shareholders; and an overall better future for our people and communities.

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"Tassal is acknowledged as a leader in sustainability and environmental responsibility in the aquaculture industry globally and is building on its past successes and addressing present challenges. We are 100 per cent committed to maintaining environmentally responsible and sustainable farming practices so that today's generations meet their needs without prejudicing future generations' ability to meet theirs," said Mr Ryan.

Well positioned to deliver growth in earnings and returns in FY20

Commenting on Tassal's positive outlook for FY20, Mr Ryan said:

"The salmon biomass and size growth we have achieved in the first half has exceeded our expectations, and we will see this flow through to an increased harvest and sales in 2H20 [vs 2H19] and FY21. We have focussed on supply to the domestic market and also the supply of more profitable products to ensure a better sales mix, while also selling less into the export market. The export market will continue to be strategically used to support growing and production efficiencies with surplus stock exported. Bigger salmon generate better margins. Combined with optimisation of our existing leases and cost of growing reduction initiatives over short to medium-term, we expect salmon earnings and returns to increase for FY20 and beyond.

"Prawn biomass growth is on track for a targeted circa 2,400 tonne harvest and sales in FY20, with sales skewed to the second half given the seasonality of harvesting. Export pricing is better than the domestic market at present, offering significant risk mitigation from a sales perspective while we continue to focus on supplying the domestic market, with supply to Coles commencing in February 2020.

"Tassal has a well-balanced strategic growth and capital investment program in place backed by species, geographic and earnings diversification, that should allow us to continue to deliver strong sustainable returns for shareholders not just in FY20 but also over the longer term."

-ends-

This announcement has been authorised for release by the Board.

Investor briefing

An investor call will be hosted by Mark Ryan (Managing Director & CEO) at 4.00pm AEDT today, Wednesday 12 February 2020. For those wishing to participate, please dial one of the numbers below and provide the conference ID to the operator:

Australia Toll Free: 1 800 558 698
Australia Local: +61 (0)2 9007 3187
Conference ID: 10003760

Media / analyst queries:

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Managing Director & CEO
Phone: 0414 729 101 / Email: mark.ryan@tassal.com.au

About Tassal

Tassal Group Limited (ASX: TGR) is a vertically integrated salmon and prawn grower and salmon, prawn and seafood processor, seller and marketer. The Company produces and sells premium salmon, prawn and seafood products for both the Australian domestic and export markets. Tassal grows delicious, fresh and healthy Atlantic Salmon and Tiger Prawns through its De Costi Seafood business sources and processes a wide range of seafood. Tassal is committed to taking a leadership role in sustainability in aquaculture and seafood sourcing. The company employs over 1,500 people. Visit www.tassal.com.au for more information.

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